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AUGUST, 1916 EXTENSION CIRCULAR, No. 13

N. C. College of Agriculture and Mechanic Arts
N. C. State Department of Agriculture
N. C. Agricultural Experiment Station
RALEIGH AND WEST RALEIGH

AGRICULTURAL EXTENSION SERVICE

B. W. KILGORE, Director

THE NORTH CAROLINA CREDIT UNION

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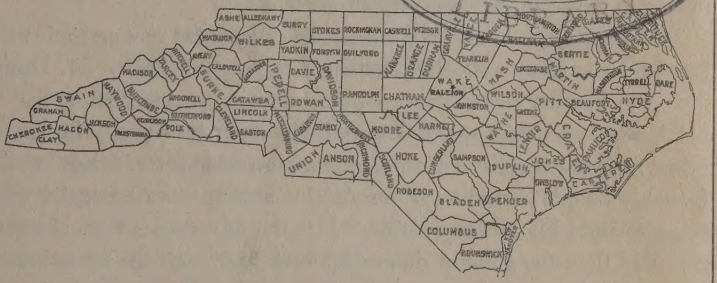

The Extension Service Serves the State

THE NORTH CAROLINA CREDIT UNION

By WM. R. CAMP

After the lesson which the European War thrust upon the South, all have been agreed that something should be done to meet the need for more credit. With a drop in the price of cotton from 12 to 6 cents a pound, the cry for credit was heard well nigh everywhere. Washington was besieged without avail. In the meantime local bankers, merchants, and farmers were given more time to realize on the crop and to pay their debts. Farmers who were able to hold their cotton made at least 2 cents a pound more than those who sold early. This would mean a profit of $250 to the farmer who had 25 bales of cotton. Such savings in a community would mean the difference between hard and good times, both for the farmers and business men of a section. Somehow we weathered the storm. But have we learned its lesson?

CHEAPER TO PURCHASE FOR CASH.

The author once asked one of the leading supply merchants of the State what could be done to relieve the farmers of the high cost of supply store credit. He very wisely advised that farmers should spend less recklessly for things they could get along without and save their money to pay cash for necessary supplies.

The cooperative banks of Canada have succeeded among their members in doing away with the practice of buying on credit. M. Desjardins, the founder of the first cooperative bank in America, says:

"A man who does not follow the wise course of providing in advance for his expenditures often finds himself short of ready money, foolishly adopts a credit system and buys more than he really needs or more than his means justify. But the day comes when he must pay, and then the amount due seems very high, and his uneasiness is great. It must also be observed that money is saved by buying for cash, for much more care is exercised when what is bought must be paid for on the spot. Under such circumstances buying is strictly limited to the amount of money on hand."

PRESENT HIGH COST OF CREDIT.

According to the reports of bankers in fifty-four cotton-producing counties of North Carolina, farmers are reported to have received an

advance of $29,150,742 from merchants in the form of supplies for growing one cotton crop, or an average of 58 per cent of its total value.* Supplies bought on time are reported to have cost on an average 19.2 per cent more than those purchased for cash. If these accounts run on an average for six months, farmers have to pay at the rate of 19.2 per cent for six months, or 38.4 per cent per year for the credit with which they obtain their supplies. The total cost of this supply store credit at this rate for producing the cotton crop alone would be $5,553,213.35. At the legal rate of interest of 6 per cent, this credit would have cost $874,522.26. Cotton farmers would have saved $4,678,691.09 if agriculture had as good a system of credit as other lines of business in this State. No business can prosper and buy credit at such prices. A business which begins on this basis is beat at the start. If this amount, in round numbers $5,000,000, were saved, it would be an income of 5 per cent on a new land value of $100,000,000, which would be added to the value of the land of the cotton counties of North Carolina alone.

FARMERS IN AN UNFAVORABLE POSITION TO BORROW.

Unorganized farmers generally have to depend upon one agency for credit. On the other hand, a corporation doing business on a large scale is able to borrow from any one of a number of financial institutions. The same corporation may be able to secure credit in Kansas City, Chicago or New York—wherever, in fact, the interest rates are cheapest.

The local character of the individual farmer's business and security so restricts his borrowing power that he is not able to borrow at all; or, he has to pay such a high rate that it does not pay him to borrow the use of capital; or, what is still worse, he may so run into debt for supplies for growing a crop that he is tied up in its sale. He is not free to organize an efficient system in his own behalf for the economical distribution of the products he produces. With profits eaten up by the high cost of credit, a farmer has no encouragement to invest new capital in the improvement of land. As a result, the value of land has remained low and its improvement slow in the South.

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*This data was obtained through a survey which was made in cooperation with the Office of Markets and Rural Organization, U. S. Department of Agriculture.

TO CHANGE THE MOVEMENT OF FUNDS TOWARD THE COUNTRY.

The movement of funds at present is toward the large trade centers. This drains the rural districts of capital and makes it cheaper for tradesmen in the cities who can get credit at a lower price to take the crop off the hands of the farmer as soon as it is harvested, finance its immediate distribution and sale or its storage until prices are favorable. It is hoped that the Credit Union, together with the National Farm Loan Association, will stem the stream of credit that moves away from the country to the city, keep what funds that are in the country there, and turn the current of cheaper credit from the cities to the rural districts for the development of country enterprise. One banker stated to the author: "Your Credit Union provides the machinery for getting credit into the country. We have plenty of funds to loan, but no way of getting them out to the farmers. Your Credit Committee, which passes on the sufficiency of the security offered by its members, is just what we want to put us in touch with the credit needs of a country neighborhood."

A NEW LAW AUTHORIZING ORGANIZATION OF FARMERS FOR CHEAPER CREDIT.

The Credit Union Law, passed by the 1915 Legislature, will provide a remedy for the high cost of short-time credit, in so far as farmers make use of it. Instead of depending upon either the government or upon the large city bankers for credit, a greater supply of credit should be developed in the State. Instead of the farmer depending upon the supply merchant for 58 per cent of the value of the cotton crop; instead of the supply merchant being forced to get credit from banker, fertilizer company and jobber with which to carry the farmer; instead of the banker, jobber and manufacturer having to go to Richmond and New York bankers for credit, the proposal is for the farmer to have the reservoir of credit in the State as well as its source. Instead of the farmer requiring the supply merchants to make an advance of $29,159,742, as the bankers of this State have estimated to have been made in the case of the 1912-1913 cotton crop, the farmers are now given the opportunity to organize savings societies which are empowered to lend to their own members. Through the organized self-help of the cotton farmers of the State they are to save a part of the $30,000,000 and deposit it in Credit Unions, borrow the rest through their own organization, and purchase their supplies for cash.

GATHERING IDLE CASH FOR DEVELOPING COUNTRY ENTERPRISE.

In most farming communities of North Carolina there are funds hid away which are doing no one any good. If all of the money of the country is brought together in Credit Unions it can be put to work earning profit for the users and developing business in the country in the same way that the city man's funds do for city business. The town people of North Carolina do a business of $12,000,000 through their building and loan associations. These cooperative banking institutions have enabled many a city man to build a home for himself which he could not otherwise have done. The North Carolina Legislature has put it within the power of farmers to do as much for themselves as city men are achieving all over the United States. A Credit Union, like a savings bank, will help people to save. Deposits may be received from both members and non-members. Four per cent interest is paid for all money received on deposit.

WHERE TO BEGIN ORGANIZATION.

What farmers may best organize a cooperative bank? Organization will be easiest where there are a number of farmers who own and operate two-horse farms. Some of the farms may be larger and some smaller. Ability to cooperate in the community is essential. If two or three farmers, together with the school-teachers and Demonstration Agent of a district, make up their minds that a Credit Union would be a good thing for the neighborhood, there will be little difficulty in bringing the rest to the same mind. The best way to proceed is for those interested to get twelve in the community to sign an application for assistance in organizing a Credit Union and send it to the Superintendent of Credit Unions, West Raleigh, N. C., and he, or one of his assistants, will come and help perfect an organization.

Every Credit Union, so far, has been organized in a schoolhouse; the teachers, children, demonstration agents, along with farmers, small and large, taking stock.

THE WORK OF ORGANIZATION.

Three to four meetings must be held before the organization of a Credit Union can be perfected. One or two meetings are necessary to arouse interest and to spread abroad an understanding of the plan and purposes of organization. In the second meeting an organization committee should be appointed to meet and pass upon the by-laws

recommended by the Superintendent of Credit Unions, and select five to act as a board of directors, three to act on the credit committee, and three for the supervisory committee. The action of the organization committee must be approved by the members at the third meeting. A set of books, with all necessary forms for doing the business of a Credit Union, should be ordered at this time. They may be purchased for $11 for fifty members and $19 for one hundred members.

Between the third and fourth meetings two copies of the by-laws and organization certificates should be acknowledged before a notary public and approved by the Superintendent of Credit Unions. He will file one copy of each in the Division of Markets and return the duplicate copies to the treasurer for filing with the Clerk of the County Superior Court. This done, the work of incorporation is completed. The cost of this procedure should not exceed one dollar for notary fee and three dollars for recording and filing papers with the Clerk of the Superior Court. At the same time the notary may swear in all officers and members of the board of directors and of all committees. The board of directors should secure a bond for their treasurer, either from private individuals in the neighborhood or from a bonding company. In the latter case it should not cost more than five dollars for the first thousand dollars and a lower rate for each succeeding thousand. This bond is to insure stockholders and depositors against losses. It should equal the total amount which the treasurer will handle at any one time.

A banking committee should be appointed to see the banks of the section in order to select one of them to do business with. Like a building and loan society, a Credit Union selects a bank to deposit its funds in. A Credit Union should be treated as one bank treats another. The most favorable terms at present would be for Credit Unions to receive 4 per cent on their daily balances and be able to borrow from a bank at 5 per cent. Four banks bid for the business of one Credit Union. All Credit Unions have so far received sympathetic cooperation from the banks generally.

The fourth meeting is the day for opening for business. It should be a grand rally day. All idle cash should be brought in to pay toward shares or put on deposit. If it is expected that the money will be left in the Credit Union for a long time, it might be well to pay it upon shares, but if not, it should be put in the Credit Union upon deposit.

The share capital can be drawn out, but thirty days' notice may be required. The share capital should be made as permanent as possible.

At this meeting men, women, boys and girls are to bring their money to become stockholders or depositors. If those under twenty-one become stockholders they will be expected to pay 25 cents a month until their shares are completely paid for. The shares are ten dollars. So this will take them forty months, or three years and four months, unless they are able to earn and pay more some months. All over twenty-one are required to make a payment of at least $2.50 every six months until at the end of eighteen months the share is paid for. The shares are to draw not over 6 per cent interest as soon as fully paid. All depositing money in the Credit Union will receive 4 per cent. It ought to be one of the proudest days of a farmer's life when he gets his pass-book and sees his own name written in it as a stockholder in his own bank. In the same book all of his deposits and loans are recorded so he can see his balance at a glance.

THE EXPENSE OF RUNNING A COOPERATIVE BANK.

Unlike a bank, a Credit Union can operate to better advantage on a small scale. One Credit Union has been organized where there had been some talk of establishing a commercial bank. A commercial bank has greater expenses for cashier, clerks and building. The treasurers of the North Carolina Credit Unions have generally accepted the extra work involved as a part of their school or other duties as a means of teaching the practice of cooperation and of serving the community. The treasurer sometimes works free the first year and receives a salary of about $50 a year thereafter. The treasurer probably would not give on an average more than three or four hours one day a week for receiving deposits and payments on shares and attending to other business. No building is required. A bank operates for the profit of a relatively small number of investors who own its stock. A Credit Union, like a building and loan society, gives credit to borrowers at cost. The dividends of a Credit Union are limited to 6 per cent. It is primarily a mutual society of borrowers and depositors.

As cooperative marketing associations affect the prices received by farmers for their products, so will a savings society, which is not run primarily in the interest of the investors, but in behalf of the borrowers, affect the rate of interest charged. The rate charged borrowers by the North Carolina Credit Unions for interest is 6 per cent,

the rate charged by supply stores for book credit averages 38.4 and the rate of banks averages 8.5 for short-time credit.* The traditional view is that prices are determined by supply and demand, including the rate of interest or the price paid for the use of capital. This conclusion is based upon the belief that those in business freely compete and work against each other for more trade. But we find that there is no tendency towards a condition of free competition, as has been assumed. Business men find it to their interest to work together. If a farmer is dependent upon one agency for credit, he makes a monopoly of that agency, whose principle becomes: "Charge what the traffic will bear." If the payability of the isolated farmer is not generally known, he cannot go elsewhere for credit. He has to accept the terms of one lender. The charge for interest becomes, therefore, higher.

The farmers of a neighborhood know each other's payability. A Credit Union and a National Farm Loan Association, through their loan committees, spread this knowledge abroad and give each individual farmer a choice of markets, in which his note may be sold to the best advantage. Thus, through organization, neighborliness becomes an asset. For a bank to gain this asset, in the case of farmers, is too expensive.

FARMERS ORGANIZED TO BORROW AT THE LEGAL RATE.

Who may borrow, and how? Any member who is industrious and pays his debts should be able to borrow from a Credit Union, provided his loan is to be used for productive purposes, but only for productive purposes which will help to pay the debt. The character of the borrower himself is the prime security. Two indorsers are required to sign the note as simply so much extra security to safeguard the Credit Union. This is where the cooperative spirit comes in. Endorsers have primarily the responsibility to see that the borrower pays the debt and not themselves. Farmers, as well as business men, will not be found lacking in this regard, especially as their action will strengthen and insure the success of their own organization.

The author was once asked, in a meeting for organization, to give an example of how one would obtain a loan from a Credit Union. The question took this form: "Suppose a farmer wished to borrow

*According to reports received from the Demonstration Agents of the State.

money to buy an ox, what would he do?" The answer was, he should fill out one of the Credit Union blanks, stating the amount and purpose of the loan, and hand his application to the treasurer, who would pass it on to the credit committee for consideration. The credit committee, however, would make short work of this application, because an ox to work a farm would not add to its earning capacity; neither would an automobile for pleasure. Loans are, in the main, for productive purposes—for purchasing fertilizer, improved plows, labor-saving machinery, improved live-stock and better mules. Thus, either from savings deposited in the Credit Union or from funds borrowed by the Credit Union, farmers are enabled to borrow, if need be, the necessary funds with which to buy supplies as cheaply as those in any line of business. A Credit Union becomes a society for the promotion of agriculture.

Undoubtedly, the need for loans will be greater than the amount of funds which can be gathered at the beginning. In the first year of activities of a Credit Union the short-time loans, for four months to a year, should be given preference over those for a longer duration. The longer time credit cannot be realized upon, while the shorter time loan can be renewed, if desirable. The length of time for which a loan should be granted will depend upon its purpose and the system of farming practiced. It takes a farmer longer to get full returns from a mule or plow than from fertilizer. A dairy farmer might be able to pay in a month, when a cotton farmer might require six months to a year.

Between December 1, 1915, and March 15, 1916, seven Credit Unions were organized by the Division of Markets and Rural Organization. Their progress is indicated by the following monthly financial statement as on July 31, 1916.

NAME	Date Opened	Members	Depositors	Payments on Shares	Deposits	Loans	No. of Borrowers	Borrowed From Banks	Cash in Banks	Total Resources
Carmel	Jan. 25	59	13	$ 527.50	$ 386.40	$1,915.00	15	$1,155.00	$ 216.50	$2,181.39
Lowe's Grove	Jan. 20	26	24	255.25	496.87	*1,594.25	16	*1,127.42	5.29	*1,602.27
Sharon	Feb. 15	56	7	296.45	226.00	$1,125.00	14	630.00	76.94	1,224.02
Drowning Creek	March 16	43	5	312.25	484.70	464.40	8		335.96	811.59
Oakdale	Feb. 16	22	2	120.00	255.00	385.00	8	145.00	129.83	537.45
Eureka	March 17	33	3	326.00	121.50	405.00	6		64.90	469.90
Bahama	April 14	26	2	246.25	50.75	190.00	3		113.76	308.36
Total, July		265	56	$2,083.70	$2,021.22	$6,078.65	70	$3,057.42	$943.18	$7,134.98
Total, June		267	50	$1,944.45	$1,863.10	$5,723.65	66	$3,017.42	$973.79	$6,772.26
Total, May		266	49	$1,893.05	$2,225.35	$5,249.04	55	$2,782.42	$1,223.90	$6,646.55
Total, April		252	38	$1,763.20	$1,654.68	$3,203.05	35	$1,290.00	$1,597.89	$4,883.70
Total, March		201	29	$1,133.25	$959.76	$940.00	8	$100.00	$1,299.78	$2,264.89

*Of this amount $817.42 was borrowed from a bank upon the approval of the Credit Committee without the endorsement of the officers, that is to say the Credit Union assumed no official responsibility for this amount.

Three results of far-reaching importance should follow from a general introduction of Credit Unions. 1. Farmers should be able to buy all farm supplies in large quantities, as manufacturers do, and get the benefit of what is known as a quantity price—that is, a lower price for large purchases than for small ones. To illustrate: one Credit Union reports saving $667.73 in buying 114 tons of fertilizer for its members over what it would have had to pay had the members bought on time in small separate lots. 2. If the farmers can get credit as cheap as the middleman, he can afford to hold and dispose of his own products throughout the year and therefore will be able to secure a uniform distribution and prevent the price depression which large early sales have forced upon him. 3. The habit of working together will take the place of each acting for and by himself. The individual farmer can only become powerful through a powerful organization which is pledged to work for his interests. The team work of a whole community working in cooperation will help each farmer to accomplish what he would be helpless to gain by himself. When every one seems to be equipping himself to do the other fellow, suspicion develops as a matter of self-protection. Only through working together for a common end can the members of a community become confident, trustful, kindly and hopeful, all for each and each for all. These, after all, are among the virtues most worth while.

An organizer, examiner, credit literature, by-laws, and monthly reports are furnished to farmers free of cost, upon application, as part of the educational system of the State.

Wm. R. Camp,
Superintendent of Credit Unions,
Division of Markets and Rural Organization,
N. C. Agricultural Experiment Station
and Extension Service,
West Raleigh, N. C.